

WASHINGTON, November 18, 2009 - The Universal Service Fund is in need of an overhaul to equalize costs among stakeholders and modernize programs to include broadband services, a group of industry representatives and regulators told the House Energy and Commerce subcommittee on Communications, Technology and the Internet during a Tuesday hearing.

The hearing examined a discussion draft of the Universal Service Reform Act of 2009, authored by subcommittee Chairman Rick Boucher, D-Va., and Rep. Lee Terry, R-Neb.

The Universal Service program, which existed for decades before being codified in the 1996 Telecommunications Act, is under "tremendous pressure" and requires a comprehensive effort to reform its operations, Boucher said during opening remarks.

Reform is needed because new technologies for long distance voice communications have reduced the available revenue that can be tapped to fund current programs, leading to soaring costs for consumers - a projected 14 percent of revenues in January of 2010, he said.

Such an increase and a maintenance of the status quo is simply "not sustainable," Boucher said. The Boucher-Terry bill would cap the high cost portion of the fund while requiring wireless carriers who participate to do so through a competitive bidding process. Such legislative changes would include reporting requirements and auditing processes that critics of the fund say are long overdue.

Intrastate communications providers would also pay into the reformed fund under the Boucher-Terry bill, relieving pressure on long-distance carriers, and making the fund "sustainable," Boucher said.

These changes would "bridge the divide" on USF issues between large carriers, which contribute more than they receive, and smaller carriers that receive more than they contribute

under the current regime, he added.

And broadband services would finally be included in the list of services eligible for universal service subsidies. This move was applauded by Rep. Henry Waxman, D-Calif.

Waxman, who chairs the full committee, said USF reform must focus on how subsidies can contribute to broadband adoption. While 90 percent of households have access to broadband, Waxman lamented that adoption rates that have not kept pace with availability and have lagged beyond the national average among low-income households.

But ranking member Joe Barton, R-Texas, expressed skepticism that broadband should be considered a "civil right." He said any addition of broadband into USF should be delayed until questions over definitions raised by the American Reinvestment and Recovery Act broadband grant programs have been settled.

State regulators strongly support the inclusion of broadband in any USF legislative effort, said Oregon Public Utility Commissioner Roy Baum. Baum, who chairs the telecommunications committee of the National Association of Regulatory Utility Commissioners, and who serves on the Federal Communication Commission's Joint Board on Universal service, welcomed the Boucher-Terry bill.

"No one seriously disputes that reform of the existing mechanisms is long overdue," Baum said.

Baum stressed the importance of incorporating broadband into USF. "Broadband deployment is of utmost importance to the economic productivity and quality of life of the entire country," he said. Baum warned members that communities that lack broadband now will soon be as disadvantaged as those who lacked electricity in the first half of the 20th century. Inclusion of broadband in the discussion draft is a "major step forward," Baum said.

Technological changes now warrant an overhaul of USF to focus around broadband where it once sought to deploy voice services, said National Cable and Telecommunications Association CEO Kyle McSlarrow. While McSlarrow acknowledged such a transition would entail "significant

changes," he recommended sweeping reforms to recognize the new reality, such as reducing the high cost program in areas where it is no longer required while ramping up programs to support broadband adoption in areas that lack access to such services.

Specially, McSlarrow reiterated NCTA's support for including broadband in existing USF programs such as Lifeline and Link Up. "Expanding these programs to include access to broadband could help bring the benefits of broadband to low-income consumers," he said.

Catherine Moyer, vice-chair of the Organization for Promotion of Small Telecommunications Companies, said OPASTCO "applauds" the inclusion of broadband in USF reform proposals, calling the draft a "forward looking move." Such services are "rapidly becoming the mode of delivery for practically everything consumers may need or want regarding communications," she said, including voice, data, education, health care and entertainment.

Support for broadband's inclusion in USF reform was echoed by Joel Lubin, AT&T vice president for public policy services.

But Lubin cautioned against acting too quickly in light of the FCC's forthcoming national broadband plan, due in just over three months. "Because the goals of the national broadband plan must include the availability of broadband services to every American within the near future, fundamental universal service reform is integrally related to the success of that plan," he said. Legislative efforts must be "carefully calibrated" not to impede the FCC's progress, he said.

